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China: A Year of Rebuilding in Foreign Trade

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China: A Year of Rebuilding In Foreign Trade

Central Intelligence Agency
Directorate of Intelligence

July 1977

Key Judgments

Chinese foreign trade in 1977 will rebound from last year's decline, but still not regain the 1975 level.

Imports Plummet in 1976—China's imports tumbled to $6 billion as deliveries of grain and machinery from the West dropped sharply. Lower prices and economic disruption in China also held down import levels. With exports down slightly to $6.9 billion China produced a record trade surplus and strengthened its balance of payments with the non-Communist world.

Political and Geological Upheavals—While cuts in some major imports were expected, the disruption of economic planning and performance caused by the leadership struggle and the earthquakes depressed trade across the board in the second half of 1976.

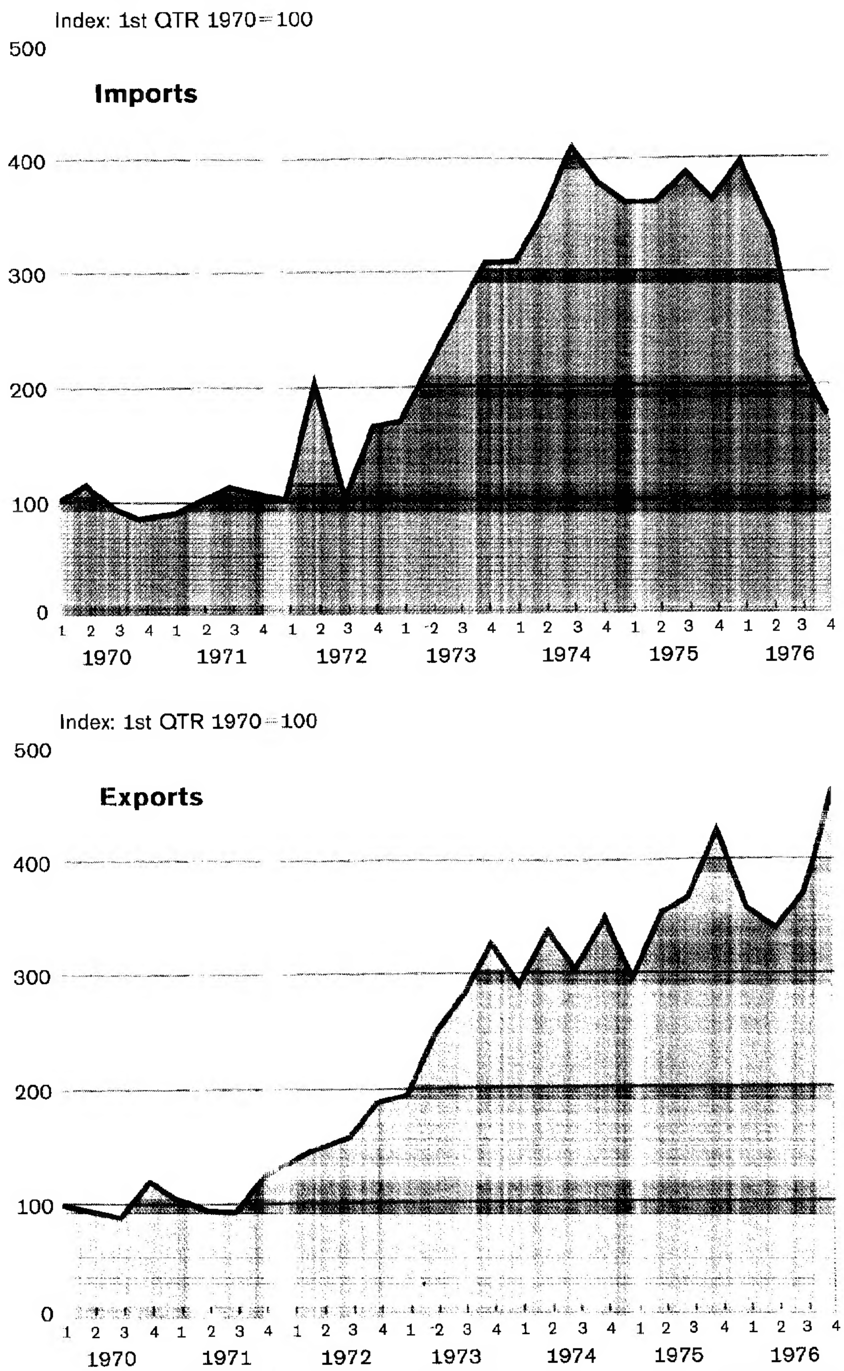
Some Trade Recovery in 1977—The new leadership has reaffirmed the active trade policy of the early 1970s, stressing the importance of foreign technology imports and the need to export raw materials to pay for them. A new foreign trade plan for the Fifth Five-Year Plan (1976-80), however, is still being formulated. Imports will lead the recovery in trade this year while export growth continues to lag. The trade surplus will be cut to half last year's level.

Commodity Imports Jump—Deliveries of grain, sugar, cotton, and soybeans will be more than double last year's level. Imports of industrial supplies will remain high and prices will be up. Machinery and equipment imports, however, will drop again. A new round of complete plant purchases will not occur until late this year and could be delayed if additional agricultural purchases are necessary.

Modest Export Growth—Any increase in 1977 exports will be in traditional goods, particularly manufactures, as demand in the West rises. Sales of Chinese crude oil may no more than match last year's level.

Figure 1

CHINA: Index of Trade With Leading Non-Communist Trade Partners[1]



1 Consisting of the Big Seven countries plus The Netherlands, Hong Kong, and Singapore. These countries normally account for nearly 70 percent of both exports to and imports from non-Communist countries.

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Overview of 1976 Trade

Political upheaval and natural disaster worsened an expected slowdown in China's foreign trade in 1976, resulting in the first decline in the value of trade since 1968. A record $900 million trade surplus was achieved as virtually all the cuts fell on the import side (see tabulation). More significantly, the hard currency trade balance with the non-Communist countries shifted sharply from a $715 million deficit in 1975 to a $745 million surplus in 1976. Exports dipped only slightly as sales of non-oil goods nearly offset the drop in petroleum exports.

Total Chinese Trade[1]

Million US $

	Exports	Imports	Balance
1970	2,050	2,240	−190
1971	2,415	2,305	110
1972	3,085	2,835	250
1973	4,960	5,130	−170
1974	6,570	7,380	−810
1975	7,025	7,360	−335
1976[2]	6,915	5,970	745

[1] Exports are f.o.b.; imports are c.i.f.
[2] Preliminary.

Although Peking had planned to hold the line on imports last year, the economic disruption caused by the leadership struggle and the earthquakes had some adverse effects, especially on imports in the last half of 1976. (See Figure 1.) Lack of agreement on the new five-year plan held up new purchases while the debate over trade policy probably inhibited initiatives by the trading corporations. Both the earthquakes and mourning for Chairman Mao, Premier Chou, and Chu Te caused suspension of trade negotiations for various periods during the year. The earthquakes had surprisingly little effect on exports, however. Fourth quarter exports, immediately following the earthquakes, probably reached the highest level ever.

Despite the fact that the bulk of the import reductions came in trade with the West, the share of these countries in China's trade last year was 82 percent, only 2 percentage points below 1975. Imports from the developed countries, China's major supplier, dropped from $5.5 billion in 1975 to $4.1 billion in 1976. (See Table 1.) Modest gains in exports to the developed countries and Hong Kong were wiped out by declining sales to the less developed countries, resulting in a small drop in total export earnings. Trade with the Communist countries remains small. A slight increase in trade with the Soviet Union and East Europe was largely offset by declining trade with other Communist countries.

No Gain in Exports

Economic recovery in the developed West provided a boost in demand for China's traditional exports and enabled Peking to restore some of the price cuts made in 1975. Export earnings from crude oil and petroleum products, however, dropped sharply from $910 million in 1975 to about $725 million last year. (See Table 2.) Crude oil deliveries to Japan fell to 6.1 million metric tons (122,000 b/d) worth about $540 million from 7.9 million tons (158,000 b/d) worth $705 million in 1975. Sales of crude and products to Romania, Thailand, and Hong Kong were up, but sales to the Philippines were unchanged as only half the amount of crude under contract was delivered. For non-oil exports the results were mixed. Foodstuff exports probably fell due to a decreased volume of rice exports and low world rice prices thoughout last year. Sales of textiles, clothing, and light manufactures increased; tin and soybeans declined; and silk exports remained depressed as Japan continued to restrict imports.

Import Bill Plummets

A combination of lower volumes and lower prices cut the value of China's major commodity imports in 1976 by about $700 million. (See Table 3.) Machinery and equipment deliveries also posted a sharp decline—from $2.2 billion in 1975 to about $1.7 billion in 1976. This reflected the completion of shipments on most of the whole plant contracts signed in 1972-74 and the steady decline in new orders for plants and other major equipment since 1973.

Whole plant contracts signed last year totaled only about $200 million compared with about $400 million in 1975 and the $1.2 billion peak in 1973. Techimport, the trade corporation responsible for purchasing plants and technology, remained active throughout the year in negotiating new plant deals even amid the debate over trade policy. Of the new plant contracts signed last year, most were for petrochemical facilities to produce synthetic rubber and textile fibers and

Table 1

China: Trade, by Area and Country [1]

Million US $

	1975				1976 [2]			
	Total	Exports [3]	Imports [3]	Balance	Total	Exports [3]	Imports [3]	Balance
Total	**14,385**	**7,025**	**7,360**	**−335**	**12,885**	**6,915**	**5,970**	**945**
Non-Communist Countries	**12,025**	**5,655**	**6,370**	**−715**	**10,545**	**5,645**	**4,900**	**745**
Developed countries	**8,110**	**2,620**	**5,490**	**−2,870**	**6,835**	**2,695**	**4,140**	**−1,445**
Japan	3,830	1,460	2,370	−910	3,055	1,305	1,750	−445
Western Europe	2,810	840	1,970	−1,130	2,690	985	1,705	−720
United States	495	160	335	−175	350	200	150	50
Canada	490	55	435	−380	310	90	220	−130
Australia and New Zealand	485	105	380	−275	430	115	315	−200
Less developed countries	**2,855**	**1,980**	**875**	**1,105**	**2,570**	**1,815**	**755**	**1,060**
East Asia and Pacific	1,060	890	170	720	1,160	925	235	690
South Asia	335	210	125	85	195	90	105	−15
Middle East and North Africa	655	445	210	235	580	385	195	190
Sub-Saharan Africa	515	390	125	265	480	370	110	260
Latin America and the Caribbean	290	45	245	−200	155	45	110	−65
Hong Kong and Macao	**1,060**	**1,055**	**5**	**1,050**	**1,140**	**1,135**	**5**	**1,130**
Communist Countries	**2,360**	**1,370**	**990**	**380**	**2,340**	**1,270**	**1,070**	**200**
USSR	280	150	130	20	415	180	240	−60
Eastern Europe	985	480	505	−25	1,010	465	545	−80
Far East	740	540	200	340	620	460	160	300
Other[4]	355	200	155	45	290	165	125	40

[1] Data are rounded to the nearest $5 million; due to rounding, components may not add to the totals shown.
[2] Preliminary.
[3] Exports are f.o.b.; imports are c.i.f.
[4] Albania, Yugoslavia, and Cuba.

Table 2

China: Trade, by Commodity [1]

Million US $

	1975	1976 [2]
Exports	**7,025**	**6,915**
Foodstuffs	2,125	2,050
Crude materials	1,925	1,700
Of which:		
Petroleum and products	910	725
Chemicals	300	350
Manufactures	2,610	2,700
Other	65	50
Imports	**7,360**	**5,970**
Foodstuffs	920	525
Crude materials	1,025	800
Chemicals	815	600
Manufactures	4,555	4,030
Of which:		
Machinery and equipment	2,160	1,700
Metals	1,975	1,800
Other	15	30

[1] Data are rounded to the nearest $5 million. The statistics are adjusted to show exports f.o.b. and imports c.i.f.

[2] Preliminary.

Table 3

China: Major Commodity Imports

Value in Million US $, c.i.f.

	1974	1975	1976 [1]
Grain			
Million metric tons	7.0	3.3	2.0
Million US $	1,180	680	305
Soybeans			
Thousand metric tons	570	35	15
Million US $	155	5	4
Sugar			
Thousand metric tons	410	240	520
Million US $	220	90	170
Cotton			
Thousand metric tons	380	164	100
Million US $	390	125	150
Chemical fertilizer [2]			
Million metric tons	3.0	2.9	2.5
Million US $	230	455	270
Rubber			
Thousand metric tons	205	240	290
Million US $	165	130	200
Iron and steel			
Million metric tons	4.4	3.9	4.5
Million US $	1,210	1,530	1,400
Aluminum			
Thousand metric tons	75	400	200
Million US $	75	300	175
Copper			
Thousand metric tons	140	120	150
Million US $	290	185	175
Petroleum and products [2]			
Thousand metric tons	900	1,035	550
Million US $	75	130	45

[1] Preliminary.

[2] Product weight.

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for ancillary equipment for the Wu-han steel mill.

Imports of agricultural commodities tumbled as good harvests permitted the Chinese to cut grain purchases to 2 million tons, the lowest level since the early 1960s. The bill for grain imports fell to about $305 million—less than half the level in 1975. Peking took advantage of sharply lower prices to double the volume of its sugar imports and to diversify its sources of supply to Australia, Southeast Asia, and Latin America. Prices played a role in the value trends of other commodity imports last year. Delivery of large amounts of Japanese steel contracted at favorable prices in late 1975 held down the value of iron and steel imports despite the larger volume. Similarly, sharply lower fertilizer prices cut the value of these imports much more than did the decrease in volume. On the other hand, higher cotton prices inflated the value of imports last year, while the decline in aluminum deliveries probably reflected the end of a Chinese stockpiling effort in 1975 when prices were depressed.

Outlook for 1977

China's foreign trade in 1977 will recover largely on the strength of renewed agricultural imports but will fall short of the $14 billion level of 1975. The trade surplus will drop to perhaps half the $945 million peak achieved last year as export growth continues to lag.

The new leadership has openly espoused a return to the active foreign trade policy initiated by Chou En-lai in the early 1970s. Peking has stressed the importance of foreign technology imports and the attendant need to boost exports, including raw materials, to pay for them. At the same time, however, this is a year of rebuilding for the Chinese economy after the setbacks in 1976. A new foreign trade plan is being hammered out, which Peking hopes to have completed by midyear. The Chinese have told foreign businessmen not to expect any major activity in capital equipment purchases until at least late this year. A need for additional agricultural imports may delay a new round of industrial purchases to 1978. A major concern for Peking will be to avoid another occurrence of the balance-of-payments problems that hit in 1974 when a need for record agricultural imports accompanied a heavy round of major equipment purchases.

Modest Export Growth Expected

Again, as in 1976, petroleum will account for a smaller share of China's exports. Problems of price and refining characteristics continue to hamper the marketing of Chinese crude oil, and

total exports this year may only match the 8 million ton level of 1976. Japan, the major market, has contracted for about the same amount as was delivered last year; planned deliveries to the Philippines are double last year's level, although more than half will be carryover from 1976. No new contract with Thailand has been signed, and any increases to North Korea and Romania will be small. Price boosts taken in line with OPEC increases will raise the value of crude oil exports slightly, but only if actual 25X1 deliveries are close to the contracted volume. Sales of petroleum products to Hong Kong and Southeast Asia may show some gain; however, rising domestic demand as the Chinese economy recovers will limit export supplies.

Virtually all the growth in exports this year will be in non-oil goods, particularly manufactures. Demand for these goods should rise as economic recovery proceeds in the West. The value of rice exports will decline due to low world prices and greater domestic needs, and China continues to have only limited amounts of minerals and metals available for export. Supply shortages resulting from the economic disruptions last year may hamper some export sales, but this problem may abate as domestic production picks up during the year.

Early reports from the recently concluded spring Canton fair point to some progress in trade. The Chinese are claiming a record attendance by foreign businessmen, but not a record number of signed contracts. The results of this fair, however, almost certainly surpassed the poor showing of the 1976 spring fair. US traders signed contracts totaling $60 million, of which $40 million represent US purchases. This equaled the level of last fall and was double that of the 25X1 fair last spring. The large contingent of Japanese businessmen registered purchases from China at about the same level as last fall, although sales fell fell short of the autumn total. Traders found the Chinese eager to do business and quite amenable to buyers' requests on labeling, styles, and packaging. Yet, shortages, particularly in foodstuffs, limited some foreign purchases. Prices of some items were higher, but the large across-the-board price hikes imposed at the 1976 fall fair were not repeated.

Agricultural Imports Escalate

Rising purchases of agricultural products will be the major factor in the recovery of imports 25X1 from last year's total. Total imports of agricultural products may top $1.5 billion this year. [redacted] Sugar imports may exceed 1 million tons, cotton purchases will be higher, and Peking is again importing substantial quantities of soybeans and edible oils. If drought conditions in China impair the harvests, Peking may be forced to continue major agricultural purchases through the second half of 1977 and into 1978.

Imports of industrial supplies are expected to edge higher this year. Domestic economic recovery should increase demand for imports, and most world commodity prices will be higher. Steel imports are likely to remain high in view of the poor performance of China's steel industry last year. In addition, China will be purchasing some coking coal from the West for the first time this year. Rubber prices are higher this year, and fertilizer imports should rise in both price and quantity.

Machinery and equipment imports will drop farther this year, to the $1.0 to $1.5 billion range, offsetting some of the growth in other imports. New orders for whole plants and major equipment have dropped sharply each year since 1973, and deliveries on most of these contracts are now complete. Aircraft deliveries will continue as the helicopter and Trident jet contracts wind up. Imports of oil drilling and exploration equipment 25X1 will remain strong. A second $20 million offshore drilling rig from Singapore was delivered this year, [redacted] Only two new plant contracts, worth $40 million, have been signed this year. If additional heavy outlays of foreign exchange for agricultural purchases become necessary, Peking may decide to postpone plant contracts until next year. At any rate, deliveries on new contracts for plants and major equipment would not show up until at least late 1978.

Balance of Payments Stable

A second, although smaller, trade surplus plus larger credit drawing should serve to keep China's balance of payments stable this year. A smaller current account surplus will be offset by improvement in the capital account balance. Progress payments for whole plants and debt service on short- and medium-term credits will total an estimated $600 million this year, down one-third from last year's total. New drawings on grain and whole plant credits will almost equal this amount. Any drawdown in China's reserves should again be small.

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Trade, by Country and Area

Japan—Muddling Along

Although Sino-Japanese trade fell by 20 percent from 1975 to 1976, Japan remained China's leading trade partner, accounting for nearly a quarter of its total trade. (See Figure 2.) PRC imports dropped by 25 percent to $1.75 billion while exports declined by only 10 percent to $1.3 billion, cutting China's deficit to half the record 1975 level.

Crude oil—6.1 million tons worth $540 million—accounted for 41 percent of China's exports to Japan. A decline from the 7.9 million tons delivered in 1975 stems partly from the refusal of Japanese refiners to buy more and partly, at least according to Chinese claims, from rising domestic demand for the oil. Fibers, fabrics, and garments continued to feel the squeeze of Japanese restrictions on silk imports, falling 6 percent from 1975 levels. The results were mixed—but generally on the up side—for other exports: coal, soybeans, and shrimp fell, for example, while processed foodstuffs, fish, fruits and vegetables, chemicals, and wood products rose.

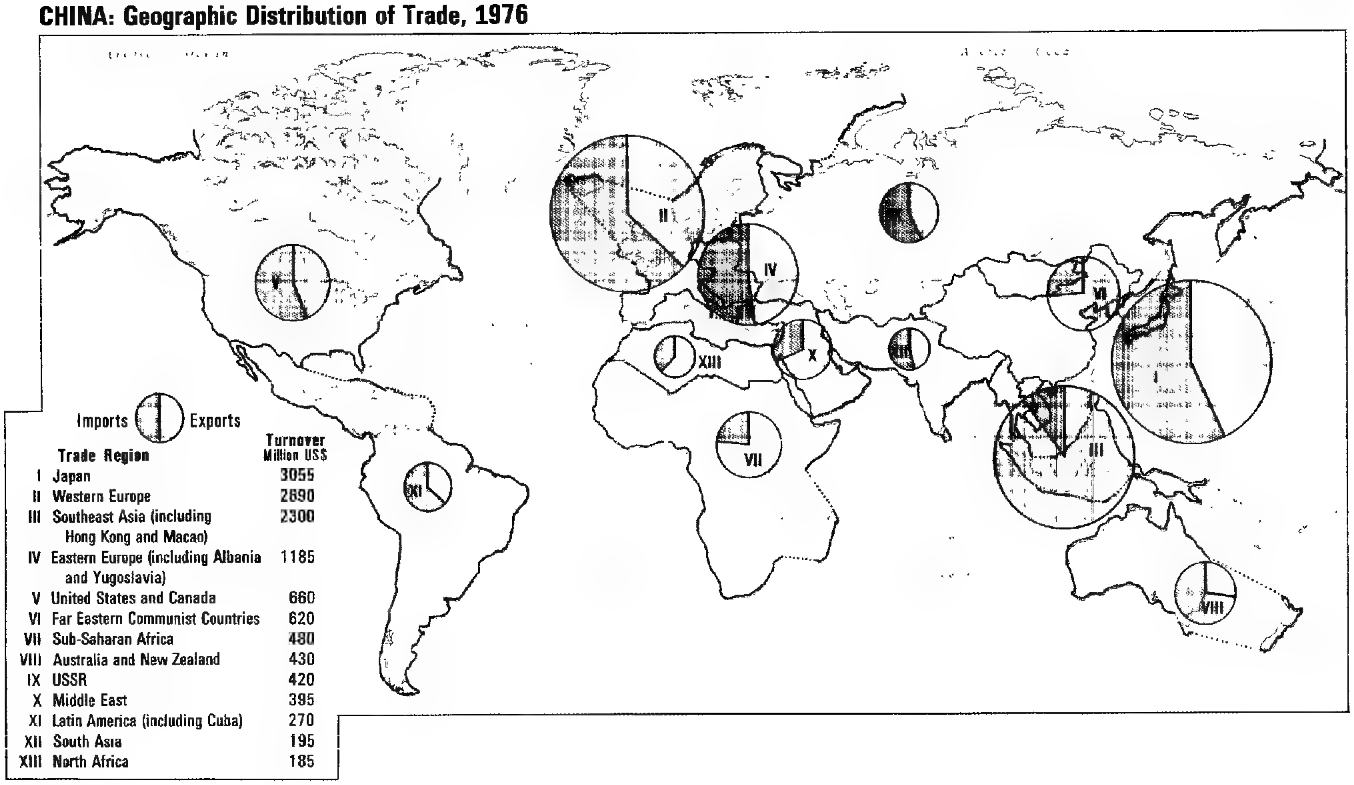
Although the value of China's imports from Japan fell considerably in 1976, the overall volume was up from 1975. Steel imports, valued at roughly $750 million, were down $90 million from 1975, but the volume actually rose from 2.4 million tons in 1975 to 3.5 million tons last year—unit values were lower by more than a third. Imports of synthetic fibers and fabrics amounted to over $170 million, up 30 percent from 1975. The volume increased even more than the value, however, since prices fell 10 to 15 percent. Imports of plastic materials—polyesters, polyethylene, and polyvinyls—increased 20 percent by value, although price hikes of 5 to 7 percent accounted for some of the increase.

On the other hand, imports of chemical fertilizers and capital goods declined both in value and in volume. Chemical fertilizer imports fell 75 percent to $70 million because China failed to sign an agreement covering second-half imports. Prices were off an average of 40 percent, however, accounting for a large part of the decline in value.

Imports of machinery and transport equipment fell from about $660 million in 1975 to $410 million in 1976. Deliveries of ships nose-dived from $175 million to $25 million, accounting for a large part of the decline. By the end of the first half of 1976 most deliveries had been completed on the whole plants ordered in 1973-74, and thereafter machinery imports tailed off sharply. New orders for whole plants, on the other hand, more than doubled, from $60 million in 1975 to at least $140 million in 1976. About half of this

Figure 2

CHINA: Geographic Distribution of Trade, 1976



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amount was for two petrochemical plants and the other half was for additional facilities for the Wu-han steel complex.

In 1977, crude oil exports may fall even further—the annual agreement calls for shipments of only 5.2 million to 6.2 million tons. If oil shipments only reach the agreed minimum, China's traditional exports could not make up the difference. China's imports, however, will not fall any further and could possibly grow. Increasing imports of steel and fertilizers at a minimum will offset a decline in machinery imports. Already the Chinese have signed contracts for 3.4 million tons of ordinary steel, and these contracts cover imports only through September. Imports of specialty steels should drive the total to over 4 million tons. Despite the fact that China's newly acquired fertilizer plants should start full production this year, the Chinese are continuing fertilizer purchases. Contracts covering the first half of the calendar year amount to the equivalent of 1.7 million tons of ammonium sulfate, and total imports for the year probably will return to 1975 levels.

In late March, Peking and Tokyo agreed "in principle" to negotiate a comprehensive long-term trade deal. Although the announcement was ballyhooed as a step of major significance, the terms of the deal are yet to be completed. Both sides have favored a long-term trade agreement at least since 1973, but negotiations
25X1 have always broken down over the details. [redacted] Efforts to conclude the agreement may again prove elusive.

United States—Slow Growing

In 1976 China registered its first trade surplus with the United States since 1971, when US controls on imports from China were lifted. Chinese exports totaled $201 million; imports, $150 million.* In the first half of the year M. W. Kellogg completed deliveries on the eight fertilizer plants ordered in 1973; in the second half Chinese imports plummeted to $15 million. (See Figure 3.)

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[redacted] Imports from all hard-currency areas collapsed in the second half of 1976. Imports hardest hit were agricultural commodities and capital goods—items that since 1972 have accounted for the lion's share of US sales.

Until full diplomatic relations are established, Peking may well continue its policy of limiting purchases from the United States when alternative supplies are available. Hua Kuo-feng and his Cabinet probably will continue to view the United States as a residual supplier of basic commodities—grain, cotton, aluminum—buying only for short-term exigencies. The clear superiority of the US in high technology areas will continue to ensure some sales to China, however.

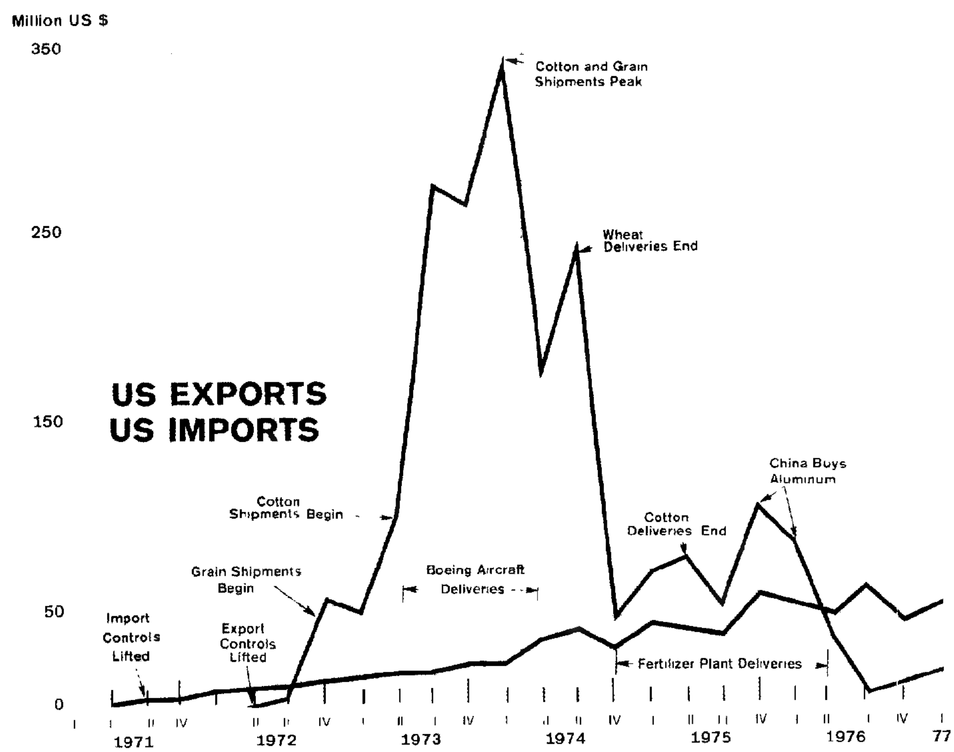
US exports to China may fall to around $100 million in 1977, continuing the decline from the banner years of 1973 and 1974. To date, contracts signed for deliveries in 1977 total about $80 million, composed chiefly of oil-well drilling and logging equipment, machine tools, polyester fibers, and cotton.

Chinese exports to the US probably will reach $250 million in 1977 as the demand for Chinese foodstuffs, silk, cotton textile fabrics, and handicrafts continue to grow. The US market for these traditional export items is limited, however, and there are no prospects in sight for any large commodity sales to US firms. Over time, tin sales are likely to decline as Peking diverts this metal to domestic use. The small quantities of Chinese crude oil available for export make petroleum sales to the US any time in the near future unlikely.

* Sino-US trade data used in this report differ from data issued by the US Department of Commerce, which publishes all trade data on an f.o.b. basis. The figures used in this report have been adjusted to show China's imports, c.i.f.

Highlights of US-China Trade [1]

Figure 3



1. Data are from US Department of Commerce and show both exports and imports on an f.o.b. basis.

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Western Europe—Deficit Drops

Last year China lopped off over $400 million from its 1975 deficit with Western Europe. Aided by recovery of the European economies, Chinese exports almost reached $1 billion, up nearly $150 million from the previous year. Larger sales of silk and cotton textiles accounted for most of the increase. Imports fell to about $1.7 billion, down more than $250 million. Western Europe continued to be a major source of metals and machinery. The decline in imports, which began in the third quarter of 1976, is likely to be reversed later this year. Chemicals and steel will provide the impetus for growth—not, as in the past, machinery and transport equipment.

For political reasons, the Chinese would like to be the first Communist country—thus preempting the Soviets—to sign a trade agreement with the European Community (EC). Nevertheless, negotiations continue to be delayed for a variety of economic reasons. Chief among them is the EC's insistence on a safeguard clause to protect industries of member nations and on smaller import quotas for a number of China's exports. Peking fears that the safeguard clauses will be so ambiguous as to allow countries importing PRC products the right to curtail imports whenever they desire. Textile quotas are the principal problem for Peking, which hopes to earn a good deal from increased exports, but quotas on food and mineral products have also caused delay. An EC mission will visit Peking in July for further talks, but no agreement will be signed until late this year at the earliest.

Germany

Germany stood out as the only developed country to increase exports to China in 1976. PRC imports climbed from $600 million in 1975 to $715 million last year. Chemicals nearly doubled, to $140 million. Machinery increased from $160 million in 1975 to $270 million last year as deliveries rushed to completion on nearly $500 million worth of plants and equipment ordered since 1973. Steel imports fell from $305 million in 1975 to $290 million last year, but rose in volume from 480,000 tons to over 515,000 tons. PRC exports also increased from $195 million in 1975 to $235 million in 1976. A boost in textile sales accounted for all of the increase.

Although China's imports may decline slightly in 1977, the decline will be temporary. Contracts for two petrochemical plants last year totaled $45 million, and two additional plants worth $40 million were purchased in mid-1977. Discussions are being held on a number of other projects, including $240 million in semisubmersible oil drilling rigs and a semiconductor manufacturing facility. In November 1976, a PRC-FRG mixed commission met in Peking to discuss means of stimulating trade. West Germany provides an important alternative source to Japan for China's industrial imports—hence, the outlook for future growth in trade is good.

France

Last year two-way trade between France and China just about matched the level of 1975. Exports increased 13 percent to $170 million while imports fell 7 percent to $400 million. Textiles accounted for most of the export increase; agricultural exports remained the same as in 1975. China's imports of steel dropped 20 percent in value, to $70 million, but rose in volume. Aluminum imports were neglible after reaching $40 million in 1975. Imports of transportation equipment dropped from over $50 million in 1975 to less than $20 million last year, largely reflecting a decline in deliveries of Berliet trucks. Five Super Frelon helicopters were ferried to China last year, and the same number are expected this year. Imports of machinery, on the other hand, jumped to $280 million last year as deliveries speeded up on equipment for the petrochemical complex ordered in 1972. This year imports from France probably will sink dramatically, buoyed only by larger steel purchases and the possibility that China might again rely on France to fill some small orders for grain. Machinery imports probably will total only about $100 million, consisting largely of deliveries on two fertilizer plant contracts.

United Kingdom

Sino-British trade slipped in 1976 for the fourth straight year. Although Chinese exports—$135 million—recovered 20 percent from the 1975 recession, Chinese imports—$145 million—tumbled by $60 million. Purchases of aluminum, construction and mining equipmemt, and aircraft engines and parts dropped the most. Steel imports and Trident aircraft deliveries, on the other hand, were up. Chinese imports should increase substantially in 1977 because 11 of the 25 Tridents purchased over the past few years are scheduled for delivery. In addition, deliveries under a $200 million contract for Spey jet engines and technology, signed in late 1975, should begin this year.

Canada and Australia—Grain Sets the Pace

China's imports from Canada last year fell to $220 million, about half the 1975 level, while exports advanced from $55 million in 1975 to $90 million in 1976. Grain accounted for most of the drop in imports as wheat deliveries fell to 1.1 million tons worth $157 million compared with 1.9 million tons worth $360 million in 1975. Imports of nonferrous metals, mostly aluminum, were about $21 million, down from about $35 million the year before, while deliveries of woodpulp rose by $12 million to $32 million. The increase in Chinese exports reflected improving sales of textiles, clothing, foodstuffs, and light manufactures. China's imports from Canada will exceed the $300 million mark this year. Wheat contracts for 1977 total 5.3 million tons. Lower prices will hold the value to an estimated $520 million, and delivery will spill into the first half of 1978. Imports of nonferrous metals are expected to be higher this year. Chinese exports will edge higher; but the Canadian market for Chinese goods remains limited, and restrictions on textile imports by Ottawa are possible.

Australia moved ahead of Canada last year in the ranking of China's trading partners as PRC imports dropped by only $80 million to $280

million and exports rose from $86 million in 1975 to $104 million. Wheat deliveries to China totaled 900,000 tons worth $130 million, off 500,000 tons and $97 million from 1975. Sugar imports, however, jumped from only $14 million in 1975 to $60 million last year, and pig iron and nonferrous metals imports held steady at about $55 million. Chinese exports showed some gains in foodstuffs and crude materials, but Australian restrictions on textiles and footwear limited the growth in sales of manufactures. Imports from Australia in 1977 should reach at least $400 million. Grain contracts total 2.5 million tons worth about $275 million, and sugar deliveries will rise to 260,000 tons worth almost $70 million. Increased Chinese purchases of pig iron and nonferrous metals are also likely. Chinese exports, on the other hand, will probably stay below the $125 million level.

Hong Kong—Slower Growth of the Local Market

Trade with Hong Kong, including goods for reexport, grew by about 17 percent last year and the colony remains China's second largest trading partner and export market after Japan. Hong Kong's retained imports of Chinese goods were $1,095 million, up only $75 million from 1975, while reexports rose 40 percent over 1975 to $492 million. PRC imports from Hong Kong were only $5 million. Sales of petroleum products grew by $20 million to about $60 million, although China's share of the Hong Kong market held steady at about 12 percent. Deliveries of petroleum faltered in the third quarter of last year when supply shortages forced China to suspend shipments under a contract with a US firm in Hong Kong. Foodstuffs, the largest export item, increased less than 5 percent last year, and deliveries of textiles and clothing showed moderate gains.

Growth of exports to Hong Kong in 1977 may be hampered by tightening supplies of foodstuffs in China. Increased sales of manufactures, however, should be sufficient to maintain at least last year's export level. [redacted]

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[redacted] Peking is also expanding its commercial operations in Hong Kong to increase exports to both Hong Kong and third countries. In 1976 the PRC-controlled oil distributor in Hong Kong opened the first of several service stations, and a PRC-linked firm announced plans to build a plant to assemble machinery from Chinese components for sale overseas.

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Less Developed Countries—Down Both Ways

Cuts in imports from the Third World roughly matched declining sales to these countries, holding China's trade surplus with the less developed countries at $1.1 billion. The East Asian countries were the only bright spot in the downward trend in PRC–Third World trade as oil exports to and sugar imports from Thailand and the Philippines boosted trade. A smaller volume of rice sales at lower prices, slow recovery of demand in the LDCs, and some shortages of Chinese export goods all combined to reduce exports last year. Commodity imports from the LDCs were down almost across the board—no grain and smaller quantities of cotton and crude oil were delivered, and lower prices cut the value of nonferrous metals and sugar imports. Only rubber imports rose in both volume and value.

Recovery of Sino-LDC trade in 1977 will be largely on the import side. Agricultural products will lead the way as China imports 700,000 tons of grain from Argentina, more cotton from the Middle East and South Asia, soybeans and soybean oil from Brazil, and greater amounts of sugar from East Asia and Latin America. In addition, metal imports should increase, and rubber prices are climbing. Exports to the Third World will lag, cutting China's large surplus with this region. Chinese foodstuffs and possibly some other goods may be in short supply, and low world rice prices should persist. Any help from increased deliveries of oil to the Philippines and Thailand will be marginal.

The Communist Countries—Little Change

Decreases in aid deliveries to some of Peking's traditional Communist recipients offset increases in trade with the USSR and Eastern Europe and kept trade with the Communist world roughly the same as in 1975.

USSR

Sino-Soviet trade jumped about 50 percent last year to $416 million. A sizable carry-over from the 1975 trade agreement pushed China's imports up to $238 million from $129 million the year before. Exports to the USSR were $178 million, up $28 million from 1975, resulting in a Chinese deficit of $60 million. Price increases due to the shift to calculating trade at world market prices, instituted in 1975, instead of the system of stopped prices, which priced goods at the level of the year they entered trade, accounted for a large share of the increase in value. Thus, trade volume probably only returned to the level of 1974 after an estimated 30-percent decline in 1975. Trade still consists primarily of an exchange of Chinese foodstuffs, textiles, and consumer goods for Soviet metals, machinery, and equipment.

Prospects for improvement in Sino-Soviet economic relations this year are poor. Trade is tied in with the overall political relationship, and any immediate hopes for change from the post-Mao leadership were quickly stifled as China reiterated its anti-Soviet stand. The 1977 trade agreement has not yet been signed, but trade
25X1 levels this year are likely to fall.

Eastern Europe

China's trade with Eastern Europe last year remained at roughly the $1 billion level of 1975. The effect of price revisions was much smaller in 1976 than in 1975. Except for Romania and Bulgaria, trade with the other East European countries declined, perhaps reflecting difficulties in negotiating trade using world prices as a guide. Machinery and equipment plus fertilizer from Bulgaria and Romania made up the bulk of Chinese imports. Chinese exports were largely foodstuffs, nonferrous metals, consumer goods, and about 500,000 tons of crude oil worth an estimated $40 million for Romania. Close economic and political relations kept Romania as China's largest Communist trading partner, with trade estimated at $470 million last year. Trade with Eastern Europe will probably continue to stagnate in 1977. With the higher prices now being charged for East European machinery, the importance of these countries to China as a source of machinery and equipment may have diminished. Further exchanges of oil for fertilizer continue to bolster Sino-Romanian trade. In addition, China has agreed to supply 10,000 tons of cotton to Romania this year, worth over $15 million at current prices.

Other Communist Countries

Political factors may have accounted for a share of the decline in China's trade with other Communist countries last year. Economic aid to Vietnam continues but has been winding down since the war. Relations with Albania cooled during the year and likely had an effect on trade and aid. Sino-Cuban trade fell last year to about $120 million, down $13 million, although the rumored break in economic relations over the Angola issue never materialized. Sugar imports from Cuba actually more than doubled to about 196,000 tons, but sharply lower prices held down the value. The drop in Sino-North Korean trade from $335 million in 1975 to $258 million in 1976 was probably the result of economic problems on both sides of the border.

Trade with the other Communist countries will probably grow little in 1977. Trade with Vietnam will not make any gains, and while relations with Cambodia are good, the prospects for expanded trade are limited. Laotian and Mongolian trade will remain small, perhaps $5 to $10 million each. Sino-Cuban trade will likely stay at last year's level as China meets more of its sugar needs in the West. Ship deliveries from Yugoslavia this year may lift trade above the $30 million level of 1975-76. Peking's willingness and ability to provide more aid to the troubled North Korean economy could provide some boost to Sino-North Korean trade this year.

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